

Data response exercise

Read the following article and answer the questions that follow.

Public investment aids growth as rising taxes hit consumers

BRITAIN'S economy relied heavily on a large rise in public (government) investment to support growth in the third quarter as rising taxes cut consumers' spending power and businesses continued to show reluctance to invest. In detailed national accounts breaking down aggregate demand and third-quarter performance, growth was left unrevised at a modest 0.4%, upsetting the Bank of England hopes of an improvement.

The crucial services sector did expand a little more vigorously than previously reported, with its third-quarter growth revised up to 0.7%, from 0.6%.

Despite services' more positive performance, economists gave warning of the driving forces behind recent growth, highlighting reliance on taxpayer-funded investment while private sector activity stayed sluggish.

The national accounts showed that government investment spending surged 16.5% in the third quarter, boosting overall growth in investment spending in the quarter to 2.2%, from an initial estimate of 1.0%.

While household wages and salaries climbed by 0.8% in the third quarter, a 3.9% rise in taxes on income and a 2.5% rise in national insurance and

pension contributions meant that disposable incomes rose by only 0.2%. The durable goods sector was negatively affected by the small growth in incomes. The figures also raised doubts over hopes that higher exports and business investment will boost growth next year. A revised 0.4% drop in third-quarter exports meant that net exports subtracted a hefty 0.7 percentage points from quarterly growth.

Business investment rose by a tiny 0.3% in the quarter. Business profits were low and companies opted to increase dividends rather than invest.

The Times, December 23, 2005

- 1 Define the following terms used in the text:
 - a aggregate demand
 - b disposable incomes
 - c durable goods
 - d investment.
- 2 Using the information from the text, try to explain changes to any of the components of AD.